

Message Text

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ACTION EA-12

INFO OCT-01 NEA-11 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DODE-00 PM-05 H-01 L-03 PA-01 /112 W
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P R 300845Z JUN 78

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 2019

INFO AMEMBASSY BANGKOK

AMEMBASSY DACCA

AMEMBASSY CANBERRA

AMEMBASSY COLOMBO

AMEMBASSY ISLAMABAD

AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

AMEMBASSY PORT MORESBY

AMEMBASSY RANGOON

AMEMBASSY SINGAPORE

AMEMBASSY SUVA

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY VIENTIANE

AMEMBASSY WELLINGTON

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MANILA FOR USADB

E.O. 11652: N/A

TAGS: EGEN, ETRD, BEXP, BENC, KS

SUBJECT: U.S. PROCUREMENT FROM ASIAN DEVELOPMENT BANK

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REF: A) STATE 155300; B) STATE 159654; C) SEOUL 5078 (NOTAL);
D) SEOUL 5278 (NOTAL); E) SEOUL 2024 (NOTAL); F) SEOUL 2345
(NOTAL); G) SEOUL 3390

SUMMARY: REFTEL A) REQUESTS INFORMATION AND COMMENT ON
IMPROVING THE RATE OF U.S. SALES CONNECTED WITH ADB FINANCED

PROJECTS. EMBASSY PERCEIVES JAPANESE COMMERCIAL DOMINANCE AND PROXIMITY TO KOREA (AND DUMPING PRICES) AS WELL AS INADEQUATE SENSITIVITY AND EFFORT BY U.S. FIRMS TO EXPLOIT ADB FUNDED PROCUREMENT AS PRINCIPAL PROBLEMS. SUGGESTIONS ON REMEDIES ARE ANALOGOUS TO THOSE RECENTLY OFFERED TO INTER-AGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY.

END SUMMARY.

1. DEPARTMENT'S OBSERVATION THAT U.S. CONSULTING ENGINEERS ARE VERY COMPETITIVE IN SELLING SERVICES ON ADB PROJECTS IS BORNE OUT BY KOREAN EXPERIENCE. OF THE NINE MOST RECENT ADB LOAN PROJECTS SINCE 1974 WHICH REQUIRED ENGINEERING SERVICES, FOUR WERE PROVIDED BY U.S. FIRMS, TWO WERE BY JAPANESE AND ONE EACH WERE BY KOREAN, UK AND GERMAN FIRMS. DATES OF INITIAL EMBASSY ALERT REPORTS ON THOSE PROJECTS RANGED BETWEEN FOUR MONTHS TO ONE YEAR AND TEN MONTHS IN ADVANCE OF THE LOAN APPROVAL DATES. BOTH HEADQUARTERS AND REGIONAL OFFICES OF MAJOR U.S. ENGINEERING FIRMS SCHEDULE PERIODIC VISITS AND MAINTAIN CLOSE CABLE AND TELEPHONE CONTACT WITH US CONCERNING PROJECTS IN KOREA AS WELL AS ROK OVERSEAS CONSTRUCTION ACTIVITIES. ALL SUCH FIRMS TAKE ADVANTAGE OF COMMERCE MEPD SERVICES.

2. ADB LOANS PROCUREMENT HAS BEEN HANDLED THROUGH THREE PRINCIPAL CHANNELS, THE OFFICE OF SUPPLY REPUBLIC OF KOREA (OSROK), THE KOREA DEVELOPMENT BANK (KDB) AND THE MEDIUM INDUSTRY BANK (MIB). THE TWO BANKS HAVE RECEIVED ADB FUNDS FOR RELENDING IN A MANNER LIMITED OFFICIAL USE

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SIMILAR TO U.S. EXIMBANK'S C.F.F. PROGRAM WITH THE KOREA EXCHANGE BANK (KEB).

3. OSROK OFFICIALS NOTE THAT IN 1977 THEY PURCHASED \$10.6 MILLION WITH ADB FUNDS OF WHICH THEY ESTIMATE 18 PERCENT (\$1.89 MILLION) WAS FROM U.S. SUPPLIERS. THE SAME FIGURES FOR IBRD LOANS WERE \$33.9 MILLION OF WHICH 25 PERCENT (\$8.47 MILLION) WAS FROM U.S. SUPPLIERS. ADB OFFICIALS WERE ABLE TO PROVIDE FIRM FIGURES FOR 1976 OF \$30 MILLION IN ADB RELENDING OF WHICH 6 PERCENT (\$1.8 MILLION) WAS USED FOR IMPORTS FROM THE U.S. KDB'S \$60 MILLION IN IBRD FUNDS YIELDED 11 PERCENT (\$6.6 MILLION) IN PURCHASES FROM THE U.S. MIB ESTIMATES THAT "LESS THAN 10 PERCENT" (BELOW \$3 MILLION) OF ITS \$30 MILLION LENDING OF ADB FUNDS IN 1977 WAS USED FOR U.S. PURCHASES, COMPARED TO "LESS THAN 20 PERCENT" (BELOW \$6 MILLION) OF THE SAME AMOUNT OF 1976 IBRD FUNDS.

4. DEFINITE PATTERNS ATTEND THE PROCUREMENT OF THE THREE INSTITUTIONS. OSROK TENDERS ARE AVAILABLE IN KOREA AND IN THE U.S. WHERE INTERESTED FIRMS CAN HAVE FROM 30 TO 40 DAYS TO PREPARE BIDS. HENCE, THE PROPORTION OF OSROK'S ADB PURCHASING FROM THE U.S. IS HIGHER THAN THE OVERALL ADB AVERAGE.

KDB FUNDING OF IMPORTS IS GENERALLY THROUGH MEDIUM TO LARGE ROK FIRMS WHICH PRESUMABLY ARE INFORMED ON THE PRICES AND SPECIFICATIONS OF FOREIGN EQUIPMENT AVAILABLE TO THEM. HOWEVER, PROXIMITY TO JAPAN AND THE THOROUGH PROMOTIONAL EFFORTS OF THE LARGE JAPANESE TRADING FIRMS REPRESENTED HERE HAVE ESTABLISHED STRONG PROCLIVITY TOWARD JAPANESE SOURCING OF CAPITAL EQUIPMENT IMPORTS. RECENT ROKG PROGRAMS TO DIVERSIFY IMPORTS TOWARD THE U.S. AND EUROPE CAN BE EXPECTED TO ERODE JAPAN'S STRONG POSITION IN THIS MARKET. MIB CLIENTS ARE SMALL FIRMS WHICH TEND TO BE FAMILIAR ONLY WITH JAPANESE MACHINERY AND WHICH BASE EQUIPMENT PURCHASE DECISIONS ON PRICE, PROMPT DELIVERY AND RAPID ACCESS TO SPARE PARTS. FREQUENTLY DECISION MAKERS IN SUCH FIRMS SPEAK JAPANESE (BUT NO ENGLISH) AND FEEL AT EASE WITH PROMOTIONAL LITERATURE AND EQUIPMENT MANUALS WRITTEN LIMITED OFFICIAL USE

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IN JAPANESE.

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MANILA FOR USADB

5. IMPORTANT ELEMENT IN CHOICE OF SOURCES WHICH IS A MATTER OF CONCERN IS JAPANESE "ONE-SHOT" DUMPING. REF. (D) CONTAINS REFERENCE TO A JAPANESE BID OF \$12 MILLION ON TURBINE GENERATORS
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ON WHICH THE NEXT LOWEST BIDDER, A U.S. FIRM, QUOTES \$22 MILLION AND FOR WHICH THE MANUFACTURING COSTS IN JAPAN WOULD BE AT LEAST \$12 MILLION. IN A RECENT OSROK BID FOR TEN DONKEY MINING LOCOMOTIVES TO BE FUNDED FROM ADB'S COA DEVELOPMENT LOAN, U.S. BID WAS SECOND BEST AT ABOUT \$1.2 MILLION, WHILE A JAPANESE FIRM TOOK IT WITH AN OFFER OF \$500,000. THE ROK AND ROC ALSO ARE TROUBLED BY SUCH ACTIVITIES. LAST YEAR A BID WAS WON BY A JAPANESE FIRM WHICH QUOTED \$12 MILLION TO THE PORTLAND, OREGON PORT AUTHORITY FOR A FLOATING DOCK (ANOTHER JAPANESE BID WAS \$22 MILLION) WHICH EFFICIENT KOREAN AND CHINESE PRODUCERS COULD NOT OFFER FOR LESS THAN \$23 MILLION. THERE APPEARS TO BE NO REMEDY TO THIS LATTER PROBLEM EXCEPT RECOVERY OF JAPANESE INDUSTRY TO THE POINT WHERE DUMPING BECOMES UNREASONABLE.

6. OTHER ELEMENTS ENTER INTO SOURCING CHOICES, FOR EXAMPLE REFTEL (E) AND (F) REPORT AN INSTANCE OF JAPANESE "LOW-BALLING" AND AN INSTANCE OF ADB STAFF INFLUENCE ON SELECTION OF FIRMS TO BE SHORT-LISTED. BOTH PROJECTS WERE SUCCESSFULLY CAPTURED FOR U.S. FIRMS BY EMBASSY INTERVENTION. ALTHOUGH NOT REPEAT NOT ALL OF THE FOREGOING ILLUSTRATIONS ARE RELATED TO ADB SOURCED PROCUREMENT, THEY ARE ALL TOO COMMON EXAMPLES OF THE SHARP PRACTICES THAT HAVE COME TO OUR ATTENTION.

7. EMBASSY RECOMMENDATIONS, WHICH WE WOULD SUGGEST FOR CCP, (REFTEL B), FOR LOCAL AND WASHDC ACTION FOR IMPROVING PROCUREMENT OPPORTUNITIES FOR U.S. FIRMS, DO NOT REPEAT NOT DRAMATICALLY DEPART FROM MONGOING PROGRAMS:

(A) EXPORT CONSCIOUSNESS OF U.S. INDUSTRY IS HISTORICALLY LOW.
REFTEL G) RESPONDS TO INTERAGENCY TASK FORCE TO DEVELOP A NATIONAL EXPORT POLICY WITH SUGGESTIONS ON MEASURES TO DEAL

WITH THAT PROBLEM, IT IS CLEAR THAT IF U.S. CONSULTANTS AND
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ENGINEERS CAN SUCCESSFULLY IDENTIFY AND PURSUE ADB PROJECTS
ON THE BASIS OF OUR EARLY WARNINGS, THEN INTERESTED EQUIPMENT
VENDORS CAN DO THE SAME. IT MAY BE THAT THE EXCELLENT INFORMATION
SYSTEM OF MEPD SHOULD BE BROADNED TO INCLUDE MAJOR
EQUIPMENT SUPPLIERS AS WELL AS ENGINEERING USERS. OSROK
DISTRIBUTION IN THE U.S. OF ITS INVITATIONS TO BID FACILITIES
THE ABILITY OF INTERESTED U.S. VENDORS TO PARTICIPATE IN THAT
PORTION OF ADB GENERATED PROCUREMENT.

(B) WITH REGARD TO PROCUREMENT VIA KDB/MIB RELENDING PROGRAMS,
THE ACTIVITIES OF U.S. TRADE CENTER, SEOUL, IN INTRODUCING
NEW-TO-MARKET FIRMS THROUGH SHOWS, INCLUDING OUR TRAVELING
CATALOGUE SHOWS, CAN BROADEN KOREAN KNOWLEDGE AND INTEREST
IN U.S. EQUIPMENT. WE EXPECT TO BE AIDED IN THAT EFFORT BY
STRONG ROKG EFFORTS TO REMEDY LARGE TRADE DEFICITS WITH JAPAN
BY DIRECTING PURCHASING TOWARD THE U.S. AND EUROPE. NEITHER
EMBASSY NOR KDB/MIB COULD PERCEIVE A PRACTICAL MEANS OF
IDENTIFYING WHICH OF THOUSANDS OF ROK FIRMS MAY INTEND
APPLY FOR SMALLERSCALERELENDING FUNDS FOR CAPITAL EQUIPMENT
IMPORTS. IN PRACTICE, APPLICANTS HAVE MADE THEIR CHOICES

BEFORE THEY APPLY FOR LOANS. IN THAT PROCESS OF IMPORT SELECTION, KOREAN FIRMS OFTEN DISCOVER THAT U.S. FIRMS ARE NOT
INTERESTED IN EXPORTING THE EQUIPMENT THEY DESIRE, SO THEY
TURN TO JAPAN WHERE QUICKER DELIVERY AND SPARE PARTS SHIPMENTS
CAN BE OBTAINED, RATHER THAN TO EUROPE. IN PRINCIPLE
THE SMALLER THE APPLICANT FIRMS, THE MORE LIKELY THEIR MACHINERY
IMPORTS HAVE BEEN FROM JAPAN.

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Message Attributes

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